

## **Independent auditor's report to the members of the London Borough of Lewisham on the pension fund financial statements of the London Borough of Lewisham Pension Fund**

### **Opinion**

We have audited the financial statements of the London Borough of Lewisham Pension Fund (the 'pension fund') administered by the London Borough of Lewisham (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **The impact of macro-economic uncertainties on our audit**

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Corporate Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment. Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Corporate Resources use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Director of Corporate Resources has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

In our evaluation of the Director of Corporate Resources conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

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However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

**Emphasis of Matter - effects of Covid-19 on the valuation of property and infrastructure investments**

We draw attention to Note (X) of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's private equity, private debt, infrastructure and property investments as at 31 March 2020. As disclosed in note (X) to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in the pension fund's property valuation reports. The Fund's property investments are valued on the basis of material valuation uncertainty as per VPS 3 and VPGA 10 of the RICS Red Book Global. In addition, there is an increased risk that the valuation of the Pension Fund's private equity, infrastructure and private debt investments may be affected and the valuations may be misstated. Therefore less certainty – and a higher degree of caution – should be attached to these property and investment values than would normally be the case, in respect of the pension fund's property, infrastructure, private equity and private debt investment valuations. Our opinion is not modified in respect of these matters.

**Other information**

The Director of Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's and group's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)**

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

**Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

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**Responsibilities of the Authority, the Director of Corporate Resources and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Corporate Resources. Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director of Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Executive Director – Finance and Resources is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit Panel is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.

Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Paul Grady*

Paul Grady  
Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor  
London

**26 November 2020**

**PENSION FUND ACCOUNTS**

**FOREWORD**

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year ending 31 March 2020.

The Pension Fund's value decreased over the year by £35m (2.5%), from £1.387bn to £1.352bn, in large part due to the impact of the Covid-19 coronavirus outbreak. At the start of March 2020 the value of the Fund had seen an-year increase of almost 6.0%, only to fall off by month end. Clearly the timing of the outbreak has impacted the financial position reported in these accounts as at 31 March 2020, and additional information on its impact will be provided within the accounting policies and notes to the accounts.

**INTRODUCTION**

The London Borough of Lewisham Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS). The Fund is a contributory defined benefit pension scheme administered by the London Borough of Lewisham to provide benefits to London Borough of Lewisham employees and former employees and admitted and scheduled bodies. These benefits include retirement allowances and pensions payable to former employees and their dependants, lump sum death gratuities and special short-term pensions. The Fund is financed by income from investments and contributions from employees, the Council and other admitted and scheduled bodies.

**ORGANISATION**

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation (referred to henceforth as "the Regulations"):

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended); and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Formal responsibility for investment management of the Pension Fund is delegated to the Council's Pensions Investment Committee (PIC), which appoints and monitors external investment managers. Each investment manager has an individual performance target and benchmark tailored to balance the risk and return appropriate to the element of the Fund they manage. The investment managers also have to consider the PIC's views on socially responsible investments. Details of the Socially Responsible Investment policy are contained in the Investment Strategy Statement and published online (see web address below).

The Pension Board operates independently of PIC and assists the administering authority in securing compliance with the Regulations and any other legislation or codes of practice relating to the governance and administration of the Scheme. Further information about the Board, together with its Terms of Reference, can be found online at the web address below.

The Pension Fund administration is managed by a small in-house team, which is also responsible for other areas of work such as redundancy payments, gratuities and teachers compensation.

A statement of the Fund's corporate governance, funding strategy and investment strategy can be found on the authority's Pension Fund website at the following address:

[Lewisham Pension Fund Website](#)

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**Pension Fund Accounts**


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**ACCOUNTING POLICIES**

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ('the Code') which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of the obligations to pay pensions and benefits which fall due after the end of the financial year. In respect of future obligations, the actuarial present value of promised retirement benefits are valued on an International Accounting Standard (IAS) 26 basis.

The Local Government Pension Scheme (Administration) Regulations 2013 require administering authorities in England and Wales to prepare a Pension Fund Annual Report which must include the Fund Account and a Net Assets Statement with supporting notes prepared in accordance with proper practices. The Regulations summarise the Pension Code and the minimum disclosure requirements.

The date for publishing the Pension Fund Annual Report is on or before 1 December following the end of the financial year. The Council will be taking its Annual Report to its Pensions Investment Committee later in the year to comply with this deadline.

A summary of the significant accounting policies, valuation techniques, and the basis of preparation of the accounts are shown below:

- (a) Fund Assets at 31 March 2020 – the below table outlines the fund managers, asset classes, and values of those assets held by the Fund as at 31 March 2020.

<b>Fund Manager</b>	<b>Asset</b>	<b>Asset Value 31 March 2020 £000</b>	<b>Proportion of the Fund 31 March 2020 %</b>	<b>Asset Value 31 March 2019 £000</b>
<b>Blackrock</b>	Passive Equity and Bonds	501,591	37.1	526,667
<b>UBS</b>	Passive Equity and Bonds	426,666	31.5	446,038
<b>Schroders Property</b>	Property	106,328	7.9	112,281
<b>J.P. Morgan</b>	Infrastructure	78,098	5.8	80,580
<b>Invesco</b>	Diversified Growth/Targeted Returns	77,726	5.7	76,231
<b>HarbourVest</b>	Private Equity	57,267	4.2	51,321
<b>Partners Group</b>	Multi-Asset Credit	40,400	3.0	41,776
<b>Pemberton</b>	Multi-Asset Credit	34,873	2.6	22,937
<b>M&amp;G</b>	Credit	0	0.0	656
<b>Various Managers</b>	Cash and Net Current Assets	29,683	2.2	28,678
<b>Lewisham</b>	Cash and Net Current Assets/(Liabilities)	(424)	0.0	(438)
<b>Total Fund Assets</b>		<b>1,352,208</b>	<b>100.0</b>	<b>1,386,727</b>

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- (b) Basis of Preparation - The accounts have been prepared on an accruals basis (i.e. income and expenditure attributable to the financial year have been included) even where payment has not actually been made or received, except Transfer Values which are prepared on a cash basis. The financial statements do not take account of liabilities to pay pensions and other benefits due after the period end; these are reported upon separately in the Actuary's report and reflected in the Council's income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes.
- (c) Investments - Investments in the Net Assets Statement are shown at Fair Value, the basis of measurement being market value based on bid prices, as required by IAS 26 Retirement Benefit Plans outlined in the 2019/20 Local Authority Code of Practice and in accordance with the provisions of IAS 39 Financial Instruments: Recognition and Measurement. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unitised equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.
- (d) The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year.
- (e) Passive equity and bonds - dividend income earned from equity and bonds with BlackRock and UBS is reinvested and not repaid directly to the Fund as cash. Interest income is recognised in the Fund as it accrues. Any amount not received by the end of the accounting period will be disclosed in the notes for Debtors and Creditors.
- (f) Private equity investments are valued in accordance with United States generally accepted accounting principles, including FAS 157, which is consistent with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out that all investments are carried at fair value and they recommend methodologies for measurement. Due to timing differences in the valuation of these investments, the value carried in the accounts as at 31 March 2020 is the fair value using the latest available valuation at 31 December 2019, rolled forward to include known fund level activity up to 31 March 2020, and adjusted for market valuation changes. As a result, it does not take into account potential valuation declines due to the Covid-19 outbreak.
- (g) Property – The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schroders, to invest in pooled property/unit trust funds. The Schroders funds are all currently valued at least quarterly. The majority of property assets to which the Fund has exposure are located in the UK. They are valued in accordance with the Royal Institute of Chartered Surveyors' (RICS) Valuation Standards at Fair Value based on their Open Market Value (OMV).
- The only non-UK fund is the Real Continental European Fund. The net asset value is derived from the net asset value of the underlying funds. Like the UK, the values of the underlying assets are assessed by professionally qualified valuers. Valuation practices will differ between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations varies, and will be based on the price frequency of the underlying assets.
- As at 31 March 2020, RICS have advised there is currently material valuation uncertainty of UK Real Estate Funds due to market conditions arising from the coronavirus pandemic, with valuers unable to accurately rely on previous market experience to form an opinion of value.
- (h) Financing Fund – The fair value of the M&G fund is based on different pricing policies depending on the instrument being valued. The fund collected on its last outstanding loan in February 2020 and made final distributions to investors in the same month; as at 31 March 2020 it is in the initial stages of liquidation.

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- (i) Diversified Growth/Targeted Returns Fund – The Fund is allocated notional units in the Invesco fund based on its overall contribution. Units will be valued on every business day in which units are created and realised. The value given to the fund's assets will be the recognised market quotation; if this is not available, the latest independent valuation will be used. Where no independent valuation can be used, the value will be determined by the manager in such manner as it deems appropriate.
- (j) Multi-Asset Credit Funds – the Pemberton private debt fund is valued at Fair Value using external benchmarks such as the equity values of comparable companies to borrowers, Credit Default Swap or commodity price movements and macro-economic data. Due to timing delays in the receipt of manager statements by the Fund's custodian, the value carried in the accounts at 31 March 2020 is the fair value at 31 December 2019 as reported by the custodian, with an adjustment for changes in market value based on manager statements as at 31 March 2020.

Partners Group values its instruments using private credit estimates or public ratings for the issuer if available and above a rating of B- from Standard & Poor's. Below that, broker quotes are used where available, or Fair Values are derived based on widely recognised market and income valuation methods. Due to timing delays in the receipt of manager statements by the Fund's custodian, the value carried in the accounts at 31 March 2020 is the fair value at 31 December 2019 as reported by the custodian, with an adjustment for changes in market value based on manager statements as at 31 March 2020.

- (k) Infrastructure Fund – Being illiquid and not publicly traded assets, J.P. Morgan appoint external valuers at least annually to determine the Fair Value of fund assets, whilst J.P. Morgan itself calculates the Net Asset Value (NAV) of each investment quarterly in accordance with their internal valuation policies which align with market best practice. Due to timing delays in the receipt of manager statements by the Fund's custodian, the value carried in the accounts at 31 March 2020 is the fair value at 31 December 2019 as reported by the custodian, with an adjustment for changes in market value based on manager statements as at 31 March 2020.
- (l) Contributions – These represent the total amounts received from the employers and employees within the scheme. Rates will differ between bodies in the scheme; from 1 April 2019 the employee contribution bands (revised annually in line with inflation) for the administering authority are as follows:

Pensionable Pay for the Post	Contribution Rates 2019/20	
	Main Section	50/50 Section
Up to £14,400	5.50%	2.75%
£14,401 to £22,500	5.80%	2.90%
£22,501 to £36,500	6.50%	3.25%
£36,501 to £46,200	6.80%	3.40%
£46,201 to £64,600	8.50%	4.25%
£64,601 to £91,500	9.90%	4.95%
£91,501 to £107,700	10.50%	5.25%
£107,701 to £161,500	11.40%	5.70%
More than £161,500	12.50%	6.25%

The employer's contribution is reviewed every three years and is determined by the Fund's Actuary as the rate necessary to ensure that the Fund is able to meet its long-term liabilities. This is assessed at each triennial actuarial revaluation. The employer's contribution rate for the administering authority in 2019/20 is 22.5%, unchanged from 2018/19.

- (m) Benefits – Benefits payable are made up of pension payments and lump sums payable to members of the Fund upon retirement and death. These have been brought into the accounts on the basis of all valid claims approved during the year.

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- (n) Transfer Values – Transfer values are those sums paid to, or received from, other pension schemes relating to periods of previous pensionable employment. Transfer values are calculated in accordance with the Local Government Pension Scheme Regulations and have been brought into the accounts on a cash basis.
- (o) Taxation – The Fund is a registered public service scheme under section (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.
- (p) VAT – By virtue of Lewisham Council being the administrating authority, VAT input tax is recoverable on Fund activities. Any irrecoverable VAT is accounted for as an expense.
- (q) Actuarial – The adequacy of the Fund's investments and contributions in relation to its overall and future obligations is reviewed every three years by an Actuary appointed by the Council. The Council's Actuary, Hymans Robertson, assesses the Fund's assets and liabilities in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013. The contribution rate required for benefits accruing in future is assessed by considering the benefits which accrue over the course of the three years to the next valuation.

The most recent triennial valuation carried out by the actuaries was as at 31 March 2019. Some of the financial assumptions made, with comparison to the previous valuation, are presented in the table below:

Financial Assumption	March 2019 (%)	March 2016 (%)
Discount Rate	3.5	4.0
Price Inflation (CPI*)	2.3	2.1
Pay Increases	3.0	2.9
Benefit Increase	2.3	2.1
CARE Revaluation	2.3	2.1
Expenses	0.7	0.6

\* Consumer Price Index

With effect from 1 April 2017 to 31 March 2019, the actuarial review carried out for 31 March 2016 resulted in the Council's employer contribution rate being set at 22.5%.

The recent triennial valuation as at the 31 March 2019 revealed that the Fund's assets, which at 31 March 2019 were valued at £1.387bn, were sufficient to meet 90% (78% in 2016) of the past service liabilities valued at £1.541bn (£1.328bn in 2016) accrued up to that date. The resulting deficit as at the 2019 valuation was £154m (£287m in 2016).

- (r) Actuarial Present Value of Promised Retirement Benefits – The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 26 basis) to be £1.817bn as at 31 March 2020 (£2.098bn as at 31 March 2019), which includes an allowance for the McCloud ruling on age discrimination, being an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

The key actuarial assumptions used to calculate this value are summarised in the below table:

Financial Assumptions	March 2020 (%)	March 2019 (%)
Discount Rate	2.3	2.4
Salary Increases	2.6	3.2
Pension Increases	1.9	2.5



## Pension Fund Accounts

Longevity Assumptions for year ended 31 March 2020	Males	Females
Current Pensioners	20.9 years	23.5 years
Future Pensioners	22.2 years	24.8 years

Sensitivity to the assumptions for year ended 31 March 2020	Approximate increase to liabilities (%)	Approximate monetary amount (£m)
0.5% p.a. decrease in the Real Discount Rate	10	173
0.5% p.a. increase in the Salary Increase Rate	0	7
0.5% p.a. increase in the Pension Increase Rate	9	165

The longevity assumptions for current pensioners are average future life expectancies at age 65, whilst future pensioners are assumed to be aged 45 at the last formal valuation; these longevity assumptions have changed since the previous IAS26 disclosures for year ending 31 March 2019.

For sensitivity purposes, the actuary estimates that a 1 year increase in life expectancy would increase liabilities by approximately 3-5%.

- (s) Investment Management and Administration - Regulation 42 of the Local Government Pension Scheme (Administration) Regulations 2008, permit the Council, as the administering authority, to charge the scheme's administration costs to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. Management fees of the Fund's investment managers are typically calculated as a set percentage of the market value of funds under management at regular intervals, although some agreements also allow for performance fees above a defined hurdle rate. Of the Fund's nine fund managers, four charge fees by invoice, the remaining five deduct them at source; in the latter instance, adjustments have been made to the Fund Account to recognise the net return on those investments.
- (t) Foreign currency transactions are made using the WM/Reuters exchange rate in the following circumstances:
- Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
  - Stock holdings: all holdings valuations are made using the WM/Reuters close of previous business day.
  - Dividend receipts: the rate applicable on the day prior to the date the dividend received is used.
- (u) Commitments - Where capital committed to investments is not fully drawn down at the end of the financial year the outstanding commitment is not included in the Net Asset Statement but is referred to in the notes to the accounts; please see note 11.

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- (v) Financial Instruments –
- (i) Financial Liabilities are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.
  - (ii) Financial Assets are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument. Financial Assets are classified into two types:
    - Assets at amortised cost – assets that have fixed or determinable payments but are not quoted in an active market; and
    - Fair value through profit or loss – assets that are held for trading.
- (w) Critical judgements in applying accounting policies, and assumptions made about the future and other major sources of estimation uncertainty – The statement of accounts contain critical judgements in applying accounting policies and estimated figures based on assumptions made by the authority about the future or that are otherwise uncertain. These assumptions affect the amounts reported for assets and liabilities as at 31 March 2020, as well as revenues and expenses incurred during the year. The impact of these judgements has been heightened by the coronavirus pandemic and its impact on the financial markets, which has affected all asset classes. The ongoing spread of the virus has had, and will continue to have a material adverse impact on local economies in affected countries and on the global economy, as international commercial activity and market sentiment are increasingly impacted by governments' measures in response to the outbreak.

There are two areas in the accounts where critical judgements are applied that are materially significant and will also be impacted by the pandemic:

- Actuarial present value of promised retirement benefits – the figure of net liability to pay pensions is based on a significant number of complex assumptions including the discount rate, salary increases, mortality rates and expected returns on Fund assets. The Pension Fund's qualified actuary calculates this figure to ensure the risk of misstatement is minimised. However, the market disruption caused by the coronavirus outbreak will have mixed and uncertain impacts on all of those assumptions, possibly resulting in material changes to the disclosed present value of promised retirement benefits as at 31 March 2020.
- Property, private equity, infrastructure and private debt valuations – these investments are not publicly listed and involve estimation techniques in their valuation. In addition, timing issues in producing capital statements for inclusion in the statement of accounts means that several assets are valued in the accounts at previous quarter valuations or later, and rolled forward to 31 March 2020 with adjustments and estimations where possible for known activity such as disbursements and capital calls. The Fund's private equity and infrastructure holdings (all level 3 investments) are impacted by this delay; as such, the final realised value of those assets may differ from the valuations presented in the accounts.

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- (x) Material valuation uncertainty – The uncertainty in the financial markets caused by the coronavirus pandemic creates further risk that the valuation of the unlisted investments may have an increased level of uncertainty, and the estimated valuations may be misstated; for example, where mark-to-market valuations have been used for private debt, this may not truly represent an asset’s actual value in an orderly market. There is an extremely wide range of outcomes, resulting in a high degree of uncertainty about the ultimate impact of the pandemic and the time it will take for markets to return to a ‘steady state’.

The total value of the Fund’s property, private equity, infrastructure and private debt valuations in the financial statements is £304m. Having engaged with the fund managers of those investments and considered the variety of approaches and timeframes within which valuations at 31 March 20 have been calculated, there is a risk that the actual values are lower than was estimated at year-end, possibly resulting in a fall in valuations of between 0-5% across asset classes, which represents between £0-£6.3m of the above value (allowing for varying levels of sensitivity between asset classes). The investments listed here are therefore presented in the context of a material valuation uncertainty due to the factors mentioned. Likewise, the Fund’s property investments are valued on the basis of material valuation uncertainty as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to these valuations than would normally be the case.

- (y) Additional Voluntary Contributions (“AVCs”) - Members of the Fund are able to make AVCs in addition to their normal contributions. The related assets are invested separately from the main Fund, and in accordance with the Regulations, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Scheme by the AVC providers are disclosed as transfers-in. Further details about the AVC arrangements are disclosed in note 13 to the financial statements.

## Pension Fund Accounts

## FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2020

The fund account shows the surplus or deficit on the fund for the year.

	2019/20 £000	2018/19 £000	See note
<b><u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED WITH THE SCHEME</u></b>			
<b>Contributions Receivable:</b>			
- from Employers	(35,027)	(32,123)	1
- from Employees	(10,369)	(9,712)	1
Transfer Values In	(10,708)	(4,453)	
Other Income	(79)	(68)	
<b>Sub-Total: Income</b>	<b>(56,183)</b>	<b>(46,356)</b>	
<b>Benefits Payable:</b>			
- Pensions	44,347	42,220	2
- Lump Sums: Retirement allowances	9,726	8,261	2
- Lump Sums: Death grants	1,080	843	2
<b>Payments to and on account of leavers:</b>			
- Refunds of Contributions	105	118	
- Transfer Values Out	5,314	4,133	
<b>Sub-Total: Expenses</b>	<b>60,572</b>	<b>55,575</b>	
<b>Sub-Total: Net (Additions)/ Withdrawals from dealings with members</b>	<b>4,389</b>	<b>9,219</b>	
Management Expenses	3,593	2,830	3
<b>Sub-Total: Net (Additions)/ Withdrawals including fund management expenses</b>	<b>7,982</b>	<b>12,049</b>	
<b><u>RETURNS ON INVESTMENTS</u></b>			
Investment Income	(14,952)	(6,168)	4
Change in market value of investments (Realised & Unrealised)	41,344	(89,474)	5a
Taxes on Income	145	392	
<b>Total Net Returns on Investments</b>	<b>26,537</b>	<b>(95,250)</b>	
<b>NET (INCREASE) / DECREASE IN THE FUND DURING YEAR</b>	<b>34,519</b>	<b>(83,201)</b>	
<b>OPENING NET ASSETS OF THE FUND</b>	<b>(1,386,727)</b>	<b>(1,303,526)</b>	
<b>CLOSING NET ASSETS OF THE FUND</b>	<b>(1,352,208)</b>	<b>(1,386,727)</b>	

## Pension Fund Accounts

## NET ASSETS STATEMENT AS AT 31 MARCH 2020

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2020.

	31/03/20 £000	31/03/19 RESTATED £000	31/03/19 £000	See note
<b>INVESTMENT ASSETS</b>				
<b>Equities</b>				
United Kingdom	0	0	13,747	5
Global	13,342	13,747	0	5
	<b>13,342</b>	<b>13,747</b>	<b>13,747</b>	
<b>Managed Funds</b>				
Property	106,332	112,285	112,285	5
Equities	663,396	695,931	695,931	5
Fixed Interest	176,092	183,854	183,854	5
Index Linked	88,785	92,934	92,934	5
Other Assets	275,021	259,752	259,752	5
	<b>1,309,626</b>	<b>1,344,756</b>	<b>1,344,756</b>	
<b>Cash Held with Custodian</b>	28,393	28,593	28,593	9
<b>Derivative Contracts</b>				
Assets	1,815	0	0	7
Liabilities	(1,815)	0	0	7
<b>Other Investment Balances</b>	1,272	70	70	8a
<b>TOTAL INVESTMENTS</b>	<b>1,352,633</b>	<b>1,387,165</b>	<b>1,387,165</b>	
Current Assets	5,070	1,325	1,325	8b
Current Liabilities	(5,495)	(1,763)	(1,763)	8b
<b>TOTAL NET ASSETS</b>	<b>1,352,208</b>	<b>1,386,727</b>	<b>1,386,727</b>	

The financial statements of the Fund do not take account of the liability to pay pensions or benefits after 31 March 2020. This liability is included within the Authority's balance sheet.

The 2018/19 Net Asset Statement has been restated to reclassify an asset categorisation from UK equities to global equities with value £13.7m at 31 March 2019 and £13.3m at 31 March 2020. In the following notes to the accounts, and where applicable, the asset is clearly identified in prior year balances as global equities, without restatement of full notes to reflect the re-categorisation.

## Pension Fund Accounts

## NOTES TO THE PENSION FUND ACCOUNTS

## 1. CONTRIBUTIONS RECEIVABLE

	2019/20 £000	2018/19 £000
<b>Employer Contributions</b>		
Administering Authority	(28,555)	(25,855)
Scheduled Bodies	(5,824)	(5,585)
Admitted Bodies	(648)	(683)
	<b>(35,027)</b>	<b>(32,123)</b>
<b>Employee Contributions</b>		
Administering Authority	(8,251)	(7,701)
Scheduled Bodies	(1,900)	(1,783)
Admitted Bodies	(218)	(228)
	<b>(10,369)</b>	<b>(9,712)</b>

Contributions receivable from employers are shown below:

	2019/20 £000	2018/19 £000
<b>Employer Contributions</b>		
Normal	(33,302)	(31,714)
Early Retirement Strain	(1,024)	(133)
Deficit Funding	(701)	(276)
	<b>(35,027)</b>	<b>(32,123)</b>

## 2. BENEFITS PAYABLE

<u>By Category</u>	2019/20 £000	2018/19 £000
Pensions	44,347	42,220
Commutation and Lump Sum Retirement Benefits	9,726	8,261
Lump Sum Death Grants	1,080	843
	<b>55,153</b>	<b>51,324</b>

<u>By Authority</u>	2019/20 £000	2018/19 £000
Administering Authority	50,057	46,924
Scheduled Bodies	3,808	3,005
Admitted Bodies	1,288	1,395
	<b>55,153</b>	<b>51,324</b>

## Pension Fund Accounts

## 3. MANAGEMENT EXPENSES

	2019/20 £000	2018/19 £000
Administration Expenses	698	626
Oversight and Governance Expenses	403	235
<u>Investment Management Expenses:</u>		
- Transaction Costs	13	24
- Management Fees	2,444	1,911
- Performance Fees	0	0
- Custody Fees	35	34
	<b>3,593</b>	<b>2,830</b>

Oversight and governance costs increased largely as a result of incurring an additional £0.14m in actuarial and investment advisory services during a triennial valuation year.

The increase in management fees is a result of full year charges from the Fund's infrastructure and multi-asset credit managers (which were new mandates in 2018/19) where committed investments have been fully called, and increased charges where further capital has been deployed to those mandates with outstanding commitments. During the year, the Fund incurred management fees that were deducted at source of £1.4m (£0.8m in 2018/19).

## 3A. EXTERNAL AUDIT COSTS

	2019/20 £000	2018/19 £000
External Audit Services	25	16
	<b>25</b>	<b>16</b>

## 4. INVESTMENT INCOME

	2019/20 £000	2018/19 £000
Cash	(1,003)	(258)
Equities	0	0
Fixed Interest	0	0
Index Linked	0	0
Managed Funds (incl. Property)	(12,521)	(5,079)
Securities Lending	(1)	(1)
Other	(1,427)	(831)
	<b>(14,952)</b>	<b>(6,169)</b>

## Pension Fund Accounts

## 5. INVESTMENT ANALYSIS

Individual Investment assets with a market value exceeding 5% of the total fund value are:

Asset	Manager	31 March 2020	
		£000	%
UBS Asset Management Life World Equity Tracker	UBS	190,536	14.1
Aquila Life US Equity Index Fund	Blackrock	162,396	12.0
BlackRock Pensions Aquila Life UK Equity Index	Blackrock	99,797	7.4
IIF UK I LP	JP Morgan	78,098	5.8
Invesco Fund Managers Perpetual Targeted Returns	Invesco	77,726	5.7
UBS Asset Management Life UK Equity Tracker A Nav	UBS	75,078	5.6

Investments exceeding 5% within each class of security are as follows:

Asset	Manager	31 March 2020	
		£000	%
<b>Global Equities</b>			
Harbourvest GE PE Shares	Harbourvest	13,346	100.0
<b>Property</b>			
Schroder Unit TST UK Real Estate	Schroders	15,388	14.5
IPIF Feeder Unit Trust Fund	Schroders	13,668	12.9
Hermes Property Unit	Schroders	10,820	10.2
Real Income Fund	Schroders	10,260	9.6
Blackrock UK FD	Schroders	9,576	9.0
Metro Pty Unit Trust	Schroders	9,406	8.8
Mayfair Cap Pty (MCPUT)	Schroders	8,559	8.0
Multi-Let INDL Property Unit Trust	Schroders	7,864	7.4
Legal and General Managed Property Fund	Schroders	5,738	5.4
<b>Managed Equities</b>			
UBS Asset Management Life World Equity Tracker	UBS	190,536	28.7
Aquila Life US Equity Index Fund	Blackrock	162,396	24.5
BlackRock Pensions Aquila Life UK Equity Index	Blackrock	99,797	15.0
UBS Asset Management Life UK Equity Tracker A Nav	UBS	75,078	11.3
Aquila Life European Equity Index Fund	Blackrock	38,078	5.7
<b>Fixed Interest</b>			
UBS Asset Mgmt STG Corp Bond Index Fund	UBS	45,399	25.8
UBS GBL Asset Life UK Over 15 Year Gilt Tracker Fund	UBS	44,675	25.4
Blackrock Pensions Aquila Life Over 15 Years UK Gilt Index Fund	Blackrock	43,661	24.8
Blackrock AM (IE) iShares UK Credit Bond Index Fund	Blackrock	42,357	24.0
<b>Index Linked</b>			
Aquila Life Over 5 Years Index Fund	Blackrock	45,170	50.9
UBS Asset Mgmt Life Over 5 Year Index Linked Gilt Tracker	UBS	43,615	49.1
<b>Alternatives</b>			
JP Morgan IIF UK I LP	JP Morgan	78,098	28.4
Invesco Fund Managers Perpetual Targeted Returns	Invesco	77,726	28.3
Partners Group Comp MAC 2017 IV	Partners Group	40,400	14.7
Pemberton Euro Debt Investments Jersey II	Pemberton	34,873	12.7
HIPEP VII (AIF) Partnership Fund LP	Harbourvest	19,148	7.0



## Pension Fund Accounts

An analysis of investment movements is set out below:

<b>INVESTMENT MOVEMENTS 2019/20</b>	<b>Value at 31 March 2019 £000</b>	<b>Purchases at Cost £000</b>	<b>Sales Proceeds £000</b>	<b>Change in Capital Value £000</b>	<b>Change in Market Value £000</b>	<b>Value at 31 March 2020 £000</b>
Global Equities	13,747	0	0	0	(406)	13,342
Managed Equities	695,931	40,119	(10,600)	1,247	(63,301)	663,396
Property	112,285	3,534	(3,856)	(730)	(4,900)	106,332
Fixed Interest Securities	183,854	6,650	(28,526)	(1,247)	15,360	176,092
Index Linked Securities	92,934	4,550	(11,089)	0	2,390	88,785
Other Assets*	259,751	32,421	(26,236)	(11)	9,096	275,021
	<b>1,358,502</b>	<b>87,274</b>	<b>(80,307)</b>	<b>(741)</b>	<b>(41,761)</b>	<b>1,322,968</b>
Cash Deposits	28,593				409	28,393
Other Investment Balances	70				7	1,272
<b>Total Investments</b>	<b>1,387,165</b>				<b>(41,345)</b>	<b>1,352,633</b>

\* Includes Infrastructure, Multi-Asset Credit, Private Equity and Diversified Growth funds.

The Pension Fund's fixed interest and index linked bond investments are held with UBS and Blackrock in pooled funds. Index Linked Securities are comprised wholly of UK Government index linked gilts, whilst Fixed Interest Securities comprise various government and corporate bonds.

Apart from global equities, overseas managed equities and bonds, the other overseas investments held by the Fund fall under the 'Other Assets' category comprising of private equity with a value of £43.9m, multi-asset credit/private debt with a value of £34.9m, and infrastructure with a value of £78.1m.

The total value of unquoted securities held by the Fund as at 31 March 2020 was £1,011m; this includes equities, bonds, private equity, diversified growth, infrastructure and multi-asset credit funds.

The total value of quoted securities held by the Fund as at 31 March 2020 was £206m; this includes equities and bonds.

The Fund has investment assets that are classed as pooled investment vehicles. The Fund holds unitised/unit-linked insurance policies valued at £859m and unit trusts valued at £180m, of which £106m relates to pooled property investments. The Fund also holds assets with value £75m as a Limited Partner in the compartments of multi asset credit limited partnerships, and £78m in a perpetual life infrastructure fund.

**LEWISHAM STATEMENT OF ACCOUNTS 2019/20**
**Pension Fund Accounts**

As at 31 March 2019:

<b>INVESTMENT MOVEMENTS 2018/19</b>	<b>Value at 31 March 2018</b>	<b>Purchases at Cost</b>	<b>Sales Proceeds</b>	<b>Change in Capital Value</b>	<b>Change in Market Value</b>	<b>Value at 31 March 2019</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Global Equities	11,487	0	0	0	2,260	13,747
Managed Equities	710,103	8,087	(83,101)	(2,777)	63,619	695,931
Property	108,401	9,207	(8,231)	0	2,908	112,285
Fixed Interest Securities	210,101	15,875	(5,013)	1,867	(38,976)	183,854
Index Linked Securities	42,600	2,100	(3,900)	910	51,224	92,934
Other Assets*	135,223	142,214	(26,634)	(13)	8,961	259,751
	<b>1,217,915</b>	<b>177,483</b>	<b>(126,879)</b>	<b>(13)</b>	<b>89,996</b>	<b>1,358,502</b>
Cash Deposits	86,154				(513)	28,593
Other Investment Balances	16				(9)	70
<b>Total Investments</b>	<b>1,304,085</b>				<b>89,474</b>	<b>1,387,165</b>

\* Includes Multi-Asset Credit, Private Equity and Diversified Growth funds.

**5A. FINANCIAL INSTRUMENTS**

The accounting policies describe how the different asset classes of financial instruments are measured, and how income and expenses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category. No financial assets were reclassified between accounting categories during the year ended 31 March 2020, and all assets are held at fair value.

	31-Mar-20			31-Mar-19		
	Fair Value through Profit & Loss	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost	Fair Value through Profit & Loss	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost
	£000	£000	£000	£000	£000	£000
<b>Financial Assets</b>						
Equities	13,342			13,747		
Managed Funds:						
Property	106,332			112,285		
Managed Equity	663,396			695,931		
Fixed Interest	176,092			183,854		
Index Linked	88,785			92,934		
Other Alternative Assets	275,021			259,752		
Derivative contracts	1,815			0		
Cash deposits		28,393			28,593	
Pending Trades		17,500			0	
Dividends & Income Due		1,276			70	
Cash Balances		4,691			1,049	
Other Current Assets		188			87	
<b>Total Financial Assets</b>	<b>1,324,783</b>	<b>52,048</b>	<b>0</b>	<b>1,358,503</b>	<b>29,799</b>	<b>0</b>

**LEWISHAM STATEMENT OF ACCOUNTS 2019/20**

**Pension Fund Accounts**

<b>Financial Liabilities</b>						
Derivative Contracts			(1,815)			0
Pending Trades			(17,511)			0
Unpaid benefits			0			0
Other Current Liabilities			(5,488)			(1,763)
<b>Total Financial Liabilities</b>	<b>0</b>	<b>0</b>	<b>(24,814)</b>	<b>0</b>	<b>0</b>	<b>(1,763)</b>
<b>Net Financial Assets</b>	<b>1,324,783</b>	<b>52,048</b>	<b>(24,814)</b>	<b>1,358,503</b>	<b>29,799</b>	<b>(1,763)</b>

**Net Gains and Losses on Financial Instruments**

The following table shows net gains on financial instruments:

	31/03/20 £000	31/03/19 £000
<b>Financial Assets</b>		
Fair Value through Profit and Loss	(41,760)	89,987
Assets at Amortised Cost	409	(513)
<b>Financial Liabilities</b>		
Liabilities at Amortised Cost	7	0
	<b>(41,344)</b>	<b>89,474</b>

**Valuation of Financial Instruments carried at Fair Value**

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into the three levels of the fair value hierarchy, according to the quality and reliability of information used to determine fair values.

Level 1 - consists of assets where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities (e.g. quoted equities, quoted fixed securities, quoted index linked securities and unit trusts).

Level 2 - consists of assets where quoted market prices are not available (e.g. where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value).

Level 3 - consists of assets where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

## Pension Fund Accounts

Values as at 31 March 2020	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total at 31/03/20 £000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	13,342	1,187,605	122,022	<b>1,322,969</b>
Financial Assets at Amortised Cost	52,238	0		<b>52,238</b>
	<b>65,580</b>	<b>1,187,605</b>	<b>122,022</b>	<b>1,375,207</b>
<b>Financial Liabilities</b>				
Fair Value through Profit and Loss	0	0	0	<b>0</b>
Financial Liabilities at Amortised Cost	(22,999)	0	0	<b>(22,999)</b>
	<b>(22,999)</b>	<b>0</b>	<b>0</b>	<b>(22,999)</b>
<b>Net Financial Assets</b>	<b>42,581</b>	<b>1,187,605</b>	<b>122,022</b>	<b>1,352,208</b>

Values as at 31 March 2019	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total at 31/03/19 £000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	13,747	1,225,948	118,807	<b>1,358,502</b>
Financial Assets at Amortised Cost	29,988	0	0	<b>29,988</b>
	<b>43,735</b>	<b>1,225,948</b>	<b>118,807</b>	<b>1,388,490</b>
<b>Financial Liabilities</b>				
Fair Value through Profit and Loss	0	0	0	<b>0</b>
Financial Liabilities at Amortised Cost	(1,763)	0	0	<b>(1,763)</b>
	<b>(1,763)</b>	<b>0</b>	<b>0</b>	<b>(1,763)</b>
<b>Net Financial Assets</b>	<b>41,972</b>	<b>1,225,948</b>	<b>118,807</b>	<b>1,386,727</b>

## 5B. FINANCIAL RISK MANAGEMENT

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). As an investment fund, the Lewisham Pension Fund's objective is to generate positive investment returns for an accepted level of risk. Therefore the Fund holds a mix of financial instruments such as securities (equities, bonds), interests in collective investment schemes (pooled funds), and cash equivalents. In addition, debtors and creditors arise as a result of its operations. The value of these financial instruments is reflected in the financial statements at their fair value.

Responsibility for the Fund's risk management strategy rests with the Council's Pension Investment Committee (PIC). Risk management policies are established to identify and analyse the risks faced by the Council's pension operations. The main risks from the Fund's holding of financial instruments are market risk, credit risk, and liquidity risk. These policies are reviewed regularly to reflect change in activity and in market conditions.

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**Pension Fund Accounts**

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The Committee regularly monitors each investment manager, and its investment consultant (Hymans Robertson) advises on the nature of the investments made and associated risks.

The Fund's investments are managed on behalf of the Fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus.

The Committee has determined that the current largely passive investment management structure is appropriate, which is reflected in its most recent investment strategy agreed in February 2020. The new strategy will target a 50% allocation to low carbon passive equity mandates, maintaining the growth strategy of the Fund, whilst continuing to invest in income assets such as renewable infrastructure to ensure the cash flow requirements of the Fund continue to be addressed.

The Fund's custodian is Northern Trust, who manage investments and report on them on behalf of the Fund. As the Fund adopts a long term investment strategy, the high level strategic risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes made to the portfolio.

**i) Market Risk**

Market risk represents the risk that fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The Fund is exposed, through its investments in equities, bonds and pooled investment funds, to all these market risks. The aim of the investment strategy is to manage and control exposure to market risk within acceptable parameters while optimising the return from the investment portfolio. In general, market risk is managed through the diversification of investments by asset class and establishing mandate guidelines with investment managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the PIC.

**a) Other Price Risk – Market**

The risk that the value of a financial instrument will fluctuate as a result of factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general. Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines.

**b) Other Price Risk – Sensitivity analysis**

The Council and its investment advisors also undertake appropriate monitoring of market conditions and benchmark analysis. The Fund has a long term view on expected investment returns which smoothes out short term price volatility.

Following an analysis of historical volatility of asset class returns and expected investment returns, in consultation with the Fund's advisors, the Council has determined that the following asset level percentages of volatility can be applied to the Fund's assets in 2019/20, assuming all other variables such as foreign exchange rates and interest rates remain the same:

Asset Type	Potential Market Movement +/- (% p.a.)
<b>UK Equities</b>	<b>12.6</b>
<b>Global Equities</b>	<b>14.7</b>
<b>Bonds and Index Linked</b>	<b>7.9</b>
<b>Alternatives</b>	<b>4.1</b>
<b>Property</b>	<b>2.3</b>
<b>Cash</b>	<b>2.4</b>

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**Pension Fund Accounts**


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Applied to the period end asset mix, the potential impact on the Fund's market value in the next financial year is as follows:

Asset Type	Final Market Value as at 31 March 2020 £000	Percentage Change	Value on Increase £000	Value on Decrease £000
UK Equities	365,850	12.6	411,767	319,933
Global Equities	310,888	14.7	356,704	265,072
Bonds and Index Linked	264,877	7.9	285,800	243,954
Other Assets	275,021	4.1	286,186	263,856
Property	106,332	2.3	108,758	103,906
Cash	28,393	2.4	29,083	27,703
<b>Total Assets*</b>	<b>1,351,361</b>	<b>6.9</b>	<b>1,444,875</b>	<b>1,257,847</b>

\* This figure excludes derivatives and other investment balances

\*\* The % change and value change for Total Assets includes the impact of correlation across asset classes

**c) Interest Rate Risk** is the risk the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. The risk is mitigated by the Fund holding minimum cash balances and a diversified portfolio.

**d) Currency Risk** is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£GBP). The Fund was exposed to the following significant foreign currency levels (i.e. £2m and over) at the 31 March 2020, with the previous year in brackets:

Euro	€9.9m	(€15.9m)
US Dollars	\$196.4m	(\$190.6m)

The remaining exposures arise from much smaller holdings of other currencies including Swiss Francs, Norwegian Krone and Australian Dollars.

**e) Currency risk – sensitivity analysis**

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors. In practice, this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges and the latter are "over the counter" agreements, which neither the purchaser nor the seller may transfer. There is no cost on entering into these contracts but the market value is established as the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date. As at 31 March 2020 there were corresponding pending foreign exchange purchases of £1.8m and sales of £1.8m. Following analysis of historical data in consultation with the Fund's advisors, the Council considers the likely volatility associated with foreign exchange rate movements in 2019/20 to be 7.4%. This volatility is applied to the Fund's overseas assets at period end as follows:

Asset Type	Asset Value at 31 March 20 £000	Change %	Value on Increase £000	Value on Decrease £000
Overseas Equities	310,888	7.4	333,746	288,030
Overseas Fixed Income	87,756	7.4	94,208	81,304
Other Alternatives	156,858	7.4	168,391	145,325
<b>Total</b>	<b>555,502</b>	<b>7.4</b>	<b>596,345</b>	<b>514,659</b>

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**Pension Fund Accounts**


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**ii) Credit Risk**

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties – including; brokers, custodian and investment managers - seeks to minimise the credit risk that may occur through the failure to settle transactions in a timely manner.

The Fund is also exposed to credit risk through Securities Lending. The Securities Lending (SL) programme is run by the Fund's custodian, Northern Trust. Northern Trust assign four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%. However, more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the Pension Fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time. The Fund's exposure through the SL programme is now reduced as the Fund is now passively managed and SL activity has greatly reduced.

**iii) Liquidity Risk**

Liquidity risk is the risk that the Pension Fund will have difficulties in paying its financial obligations as they fall due. For example; the benefits payable costs and capital commitments. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The Fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2020 these assets totalled approximately £942m, comprising of bonds and equities, with a further £28.4m held in cash by the custodian on behalf of the Fund and fund managers.

**6. PRIOR YEAR ADJUSTMENT**

£13.75m of equities in 2018/19 have been reclassified from UK to global equities; the asset represents the Fund's holdings in HarbourVest Global Private Equity, a Guernsey domiciled and London listed evergreen fund.

**7. DERIVATIVE CONTRACTS**

As at 31 March 2020 there were pending foreign exchange purchases of £1.8m and sales of £1.8m, with an unrealised loss of £390. The net gains and losses in the tables below relate to foreign exchange forward contracts.

	2019/20 £000	2018/19 £000
Foreign Exchange Gains	0	21
Foreign Exchange Losses	0	0
<b>Total Unrealised Gains / (Losses)</b>	<b>0</b>	<b>21</b>

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**Pension Fund Accounts**


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**8A. OTHER INVESTMENT BALANCES**

These comprise the following amounts:

	31/03/20 £000	31/03/19 £000
<b>Debtors</b>		
Equity Dividends / Income from Managed Funds	1,244	38
Interest and Other Income	32	32
Pending Trades	17,500	0
<b>Creditors</b>		
Interest and Other Expenditure	7	0
Pending Trades	(17,511)	0
<b>Net</b>	<b>1,272</b>	<b>70</b>

**8B. NET CURRENT ASSETS**

These comprise the following amounts:

**Current Assets**

	31/03/20 £000	31/03/19 £000
Contributions Due from Admitted/ Scheduled Employers/ Employees	191	189
Interest and Other Income	0	0
Other Current Assets	188	87
Cash in Hand	4,691	1,049
	<b>5,070</b>	<b>1,325</b>

**Current Liabilities**

	31/03/20 £000	31/03/19 £000
Fund Manager and Custody Fees	(283)	(274)
Consultancy/ Advisory Fees	(35)	(8)
Other Current Liabilities	(5,177)	(1,481)
	<b>(5,495)</b>	<b>(1,763)</b>



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**Pension Fund Accounts**

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**9. CASH AND BANK**

**Cash Held With Custodian**

The Northern Trust Company is the Fund's global custodian and cash is held to meet the cash flow requirements of the Fund and its managers. The total cash held as at 31 March 2020 was £28.4m (£28.6m as at 31 March 2019). Approximately £10.9m of this was with Schroders (of which £5.3 was committed), £6.0m with HarbourVest, £4.7m with JP Morgan and £6.8 was being held on behalf of the other managers.

**Pension Fund Bank Account**

The Lewisham cash in hand balance of £4.7m represents uninvested cash held in the Pension Fund bank accounts as at 31 March 2020. The Fund's accounts are held with Barclays Bank.

**10. POST YEAR END EVENTS**

**Non-Adjusting event – Covid-19**

The coronavirus outbreak, declared a pandemic by the World Health Organisation on 11<sup>th</sup> March 2020, has resulted in thousands of deaths, the imposition of quarantine measures, border closures and travel restrictions, and wider market uncertainty, particularly for those cyclical industries less able to deal with an economic downturn.

The impact on global financial markets in the short term has primarily been greater volatility; for a pension fund, a significant decline in the value of investments could be classed as a non-adjusting event with regards conditions that arose after the reporting period. Longer term performance will depend on how long the pandemic lasts and what path the recovery takes. However, although there have been variations to fund values, the value of the Fund's investments as at 30 September 2020 is overall higher than as reported at 31 March 2020 in these statements (an increase of approximately 11% to £1,502m).

The Fund's level 3 investments are well diversified in terms of geographies, sectors and vintages (year when first tranche of investment capital is called) so any valuation effects of the pandemic will vary depending on such factors. The total value of level 3 investments in the financial statements is £123.7m; this value could see increases where underlying investments are held in sectors such as telecoms and IT, or food products, whilst there is likely to be an adverse impact on investments held in the non-food retail and leisure sectors.

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**Pension Fund Accounts**


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**11. COMMITMENTS**

The Pension Fund was committed to the following capital contributions as at the 31 March 2020:

<b>Fund Manager</b>	<b>Fund</b>	<b>Amount ('000)</b>	<b>Translated (£'000)</b>
HarbourVest	HarbourVest Partners XI AIF L.P.	\$20,138	16,236
HarbourVest	HarbourVest Partners X AIF L.P.	\$15,908	12,826
Pemberton	European Debt Investments Jersey II L.P.	£8,212	8,212
HarbourVest	HIPEP VII (AIF) Partnership Fund L.P.	\$6,975	5,624
HarbourVest	Harbourvest Partners VIII - Cayman Buyout Fund L.P.	\$833	671
HarbourVest	Harbourvest International Private Equity Partners V - Cayman Partnership Fund L.P.	€ 700	619
HarbourVest	Harbourvest Partners VIII - Cayman Venture Fund L.P.	\$190	153
HarbourVest	Harbourvest International Private Equity Partners V - Cayman Direct Fund L.P.	€ 124	109
	<b>Total</b>		<b>44,450</b>

**12. RELATED PARTY TRANSACTIONS**

There have been no material transactions with related parties in the financial year. There were no provisions for doubtful debt and amounts written off in the period.

Eight Councillors sit on the Pensions Investment Committee which oversees the Fund. At each meeting of the Pensions Investment Committee, Councillors are required to make declarations of interest which are recorded.

During the year the following declarations were made:

- Councillor John Muldoon declared his interest as a member of Lewisham's Pension Fund.
- The Chair of the Investment Committee Cllr Mark Ingleby sits on the Board of Lewisham Homes, the Council's housing subsidiary.

Four members and an independent chair make up the membership of the Pensions Board, which assists the administering authority in adhering to the Regulations with regards to its administration and governance of the scheme. At each meeting of the Board, members are required to make declarations of interest which are recorded.

During the year no declarations of interest were made apart from the members being participants in the scheme, although this is a requirement of their Board membership.

No other trustees or Council chief officers with direct responsibility for Pension Fund issues made any declarable transactions with the Pension Fund in the period to 31 March 2020.

The Council, the administering authority, had dealings with the Fund as follows:

- Recharges from the Council for the in-house administration costs borne by the scheme were transacted for £654k (included in Administration Expenses in Note 3). Some cash transactions relating to pension activities are currently effected through the Council's bank account and consequently Pension Fund cash balances are held by the Council from time to time and vice versa.

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**Pension Fund Accounts**


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- The salary of the Executive Director for Resources and Regeneration for 2019/20 was £136,964, which includes employer's pension contributions of £25,157. This was an interim appointment to 31 January 2020, after which the post holder returned to their position of Acting Chief Finance Officer from 1 February 2020 to 31 March 2020.
- The salary of the Acting Chief Finance Officer, covering the period 1 February 2020 to 31 March 2020, was £27,393, which includes employer's pension contributions of £5,032.

**13. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)**

Contributing members have the right to make AVCs to enhance their pension. There are currently 45 'open' AVC contracts for LGPS members (i.e. excluding members with AVC contracts who have left Lewisham and now have preserved benefits). Some of these 'open contracts' will be for members who have paid AVCs in the past but who have suspended payments to the scheme for the time being.

The Fund has two AVC providers: Clerical Medical and Utmost (formerly Equitable Life). The value of AVC investments is shown below. The contributions are held by the providers and do not form part of the Lewisham Fund's assets in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

	2019/20			2018/19		
	Utmost £000	Clerical Medical £000	Total £000	Equitable Life £000	Clerical Medical £000	Total £000
<b>Value at the Beginning of Year</b>	<b>428</b>	<b>964</b>	<b>1,392</b>	<b>434</b>	<b>876</b>	<b>1,310</b>
Contributions and Transfers Received	3	182	185	3	172	175
Investment Return	81	(83)	(2)	13	93	106
Paid Out	(91)	(77)	(168)	(22)	(177)	(199)
<b>Value at the End of the Year</b>	<b>421</b>	<b>986</b>	<b>1,407</b>	<b>428</b>	<b>964</b>	<b>1,392</b>

**14. SCHEDULED BODIES**

The following are scheduled bodies to the Fund as at 31 March 2020, arranged in descending order by the value of their contributions in 2019/20:

Lewisham Homes Limited
Haberdashers' Aske's Knights Academy
Christ The King Sixth Form College
Childeric
Tidemill Academy
St Matthews Academy
St George's Academy

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**Pension Fund Accounts**

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**15. ADMITTED BODIES**

The following are admitted bodies to the Fund as at 31 March 2020, arranged in descending order by the value of their contributions in 2019/20:

Youth First LTD
Phoenix
Phoenix Agency Services
DB Services
Lewisham Music
Skanska
Chartwells Compass
One Housing (Ceased 31/12/2019)
Change Grow Live
NSL (formerly known as National Car Parks Ltd)
Nviro
Fusions Leisure Management
Quality Heating
3 C's Support
Housing 21
Pre-School Learning Alliance
Tower Services
Wide Horizons (Ceased 31/07/2018)

**16. STOCK LENDING**

The Statement of Investment Principles and Investment Strategy Statement permit the Fund to enter into stock lending whereby the Fund lends other bodies stocks in return for a fee and collateral whilst on loan. Equities and fixed income assets held in segregated accounts in custody may be lent.

The economic benefits of ownership are retained when securities are on loan. The Fund has its full entitlements at all times to any income due, or rights on its securities on the anticipated date of the entitlement so that no economic benefits are foregone as a result of securities lending activity.

Northern Trust is responsible for collecting dividend and interest income on loaned securities from borrowers. The right to vote moves with the securities.

As at the 31 March 2020 the value of aggregate stock on loan was £0m (£0m as at 31 March 2019); the Fund does not currently hold any segregated assets for participation in the securities lending programme.

**Collateral**

The collateral held as security on loans cannot be sold or re-pledged in the absence of default by the borrower. The Fund did not enter into any stock lending transactions during the financial year, and the value of collateral held as at 31 March 2020 was £0m (£0m as at 31 March 2019).

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**Pension Fund Accounts**


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**17. MEMBERSHIP**

	Active Members		Deferred Beneficiaries		Retired Members	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Administering Authority	5,590	5,656	10,502	10,295	7,556	7,360
Scheduled Bodies	1,050	951	1,234	1,051	346	298
Admitted Bodies	114	119	124	123	122	111
	<b>6,754</b>	<b>6,726</b>	<b>11,860</b>	<b>11,469</b>	<b>8,024</b>	<b>7,769</b>

**18. AUTHORISATION**

These accounts were approved by Council on 25 November 2020.

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**Pension Fund Accounts**

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